

## 2 Real Sector

### 2.1 Agriculture

Hopes of a strong recovery in agricultural growth during FY07 on the back of improved water availability, continued access to credit, and ease in the prices of fertilizers have dimmed following the lackluster performance of major crops in *kharif* FY07. In particular, the impact of a strong sugarcane harvest has been overshadowed by declines in the harvests of cotton, rice and maize (see **Table 2.1**)

On the other hand, prospects for the *rabi* FY07 crops including wheat look good given favorable weather, satisfactory availability of all inputs, an increase in the wheat support price and the provision of a subsidy on non-urea fertilizers. However, even good *rabi* harvest may not be sufficient to push the growth in value-addition by major crops above the 4.3 percent annual target (see **Table 2.2**). As a result, realization of the FY07 agricultural growth target will be possible only if the livestock sub-sector performance is well above target.

#### Crops

The initial production estimates for major crops of *kharif* FY07 indicate that the harvests of cotton, rice and maize declined relative to the preceding year.<sup>1</sup>

This principally reflected a decline in the cultivated area under these crops (see

**Table 2.1: Value Addition by Major Crops**

	million Rupees			Percent change	
	FY05	FY06	FY07 <sup>PE</sup>	FY06	FY07
Cotton	104.7	90.4	86.2	-13.6	-4.6
Rice	58.9	63.9	62.3	8.6	-2.5
Maize	15.9	19.8	18.6	24.1	-6.1
Sugarcane	38.3	35.9	41.6	-6.4	15.9
<b>Sub-total</b>	<b>217.9</b>	<b>210</b>	<b>208.7</b>	<b>-3.6</b>	<b>-0.6</b>
Wheat	144.7	144.2	152.5 <sup>T</sup>	-0.4	5.8
<b>Total</b>	<b>362.6</b>	<b>354.2</b>	<b>361.2</b>	<b>-2.3</b>	<b>2.0</b>

P: Provisional; E: Estimated

T: Target

**Table 2.2: Composition of Agriculture Performance**  
percent

Sectors/Sub-sectors	FY06 <sup>P</sup>		FY07 <sup>T</sup>	
	Growth	Share	Growth	Share
<b>Agriculture</b>	<b>2.5</b>	<b>100</b>	<b>4.5</b>	<b>100</b>
Major crops	-3.6	35.2	4.3	35.1
Minor crops	1.6	12.3	2.3	12.1
Livestock	8.0	49.6	5.2	49.9
Fishery	1.9	1.3	4.0	1.3
Forestry	-9.7	1.6	3.5	1.6

P: Provisional; T: Targets

Source: Annual Plan FY07

<sup>1</sup> The harvests of cotton and rice both were also short of their respective target for the year.

**Table 2.3).** Indeed the aggregate cropped area during *kharif* FY07 fell by 2.3 percent, despite the 13.9 percent increase in cropped area for sugarcane.

The only major *kharif* crop that performed well was sugarcane, where the cultivated area increased following exceptionally good prices garnered by sugarcane farmers in the previous season. This rise in area under sugarcane (and production) is a reversal of a declining trend witnessed for the last two years. Nonetheless, FY07 sugarcane crop size is still 3.7 percent

lower than the level achieved in FY04 mainly due to continued dispute over prices between the growers and sugar mills. This indicates that a settlement of the perennial price disputes between growers and sugar mills needs to be resolved in order to improve the farmers' decision-making ability about the crop size.

The increased cultivation of sugarcane was one of the likely contributors to the relatively weak cotton harvest, as high prices for sugarcane and relatively weak cotton prices led farmers to switch crops. The impact of this may have been compounded by excessive rains at sowing time, and the late release of irrigation water in major cotton belt areas. As a result, the area under cotton fell short of both the target for FY07 and actual outcome in FY06.

Moreover, cotton yield also did not see a significant improvement in FY07, as the crop was hurt by: (1) rise in humidity, due to prolonged rains, fostered pest attacks and increased the incidence of Cotton Leaf Curl Virus (CLCV); and, (2) cotton fields were partly damaged by rain and flood in major cotton producing districts of Southern

**Table 2.3: Planted Area of Major Crops**

000' hectares					
Crops	FY05	FY06	FY07	FY07	% change in FY07 <sup>E</sup> over FY06
	Actual	Actual	Target	Estimate	
<b><i>Kharif crops</i></b>					
Cotton	3,229	3,100	3,250	2,951	-4.8
Sugarcane	967	907	1,005	1,033	13.9
Rice	2,520	2,622	2,575	2,475	-5.6
Maize	945	1,030	1,001	1,027	-0.3
<b><i>Rabi crops</i></b>					
Wheat	8,358	8,448	8,459	--	--
Gram	1,109	1,066	1,051	--	--

E: estimate

**Table 2.4: Production Estimates of Major Crops**

(000 tons, cotton in 000 bales)					
Crops	FY05	FY06	FY07	FY07	% change in FY07 <sup>E</sup> over FY06
	Actual	Actual	Target	Estimate	
<b><i>Kharif crops</i></b>					
Cotton	14,244	13,019	13,820	12,410	-4.7
Sugarcane	47,224	44,666	50,500	51,800	16.0
Rice	5,025	5,547	5,693	5,400	-2.7
Maize	2,797	3,110	3,279	2,918	-6.2
<b><i>Rabi crops</i></b>					
Wheat	21,612	21,277	22,000	--	--
Gram	868	480	610	--	--

E: estimate

Note: Wheat target revised to 22500 thousand tons and for gram to 707 thousand tons for FY07.

Sindh. As a result of these adverse developments, cotton harvests fell by 4.7 percent in FY07, continuing the decline (8.6 percent YoY) seen in the preceding year (see **Table 2.4**). Due to its greater impact on overall economy, this continued decline in the cotton harvest is a source of concern, and points to the need to develop more hardy varieties.

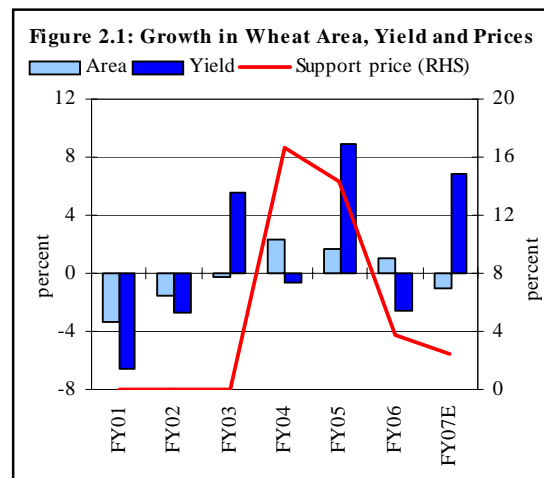
As with cotton, the decline in the area under rice may also have been impacted by extended untimely rains. As a result, the area under rice fell by 5.6 percent in FY07 against a sharp increase of 4.1 percent seen in FY06. Nonetheless, per acre yield witnessed an increase of 3.1 percent in FY07, suggesting that if targeted area under rice would have been achieved, FY07 would have seen another bumper crop.

The rising trend of rice yield is a result of (1) higher irrigation water availability, following monsoon rains, (2) efficient use of inputs, and (3) better crop management adopted by the growers on the hopes of better returns.

Following the below-target aggregate performance by the major crops in *kharif* FY07, only an exceptionally above-target wheat harvest will bring the aggregate value-addition by major crops close to the target. This looks challenging, particularly as widespread rains in November and December have reportedly delayed wheat sowing in some areas.

Nonetheless, the wheat target may be achieved given supporting factors, such as the subsidy given on phosphate and potash fertilizers, the 5.3 percent increase in water availability during *rabi* over the last year, and the fact that an increase in wheat support price (Rs 10.0 per 40 kg) was announced well in time and a vigorous media campaign was launched for balanced use of fertilizers to boost yields.

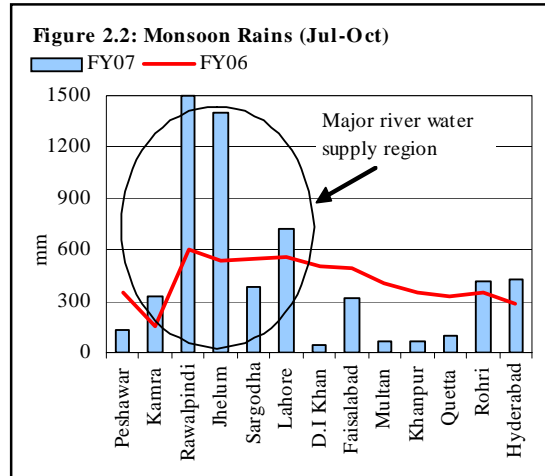
Moreover, three new varieties of wheat (Fareed-06, Sehar-06, and TD1) were also distributed among wheat growers during FY07 season to achieve higher yield (see **Figure 2.1**).



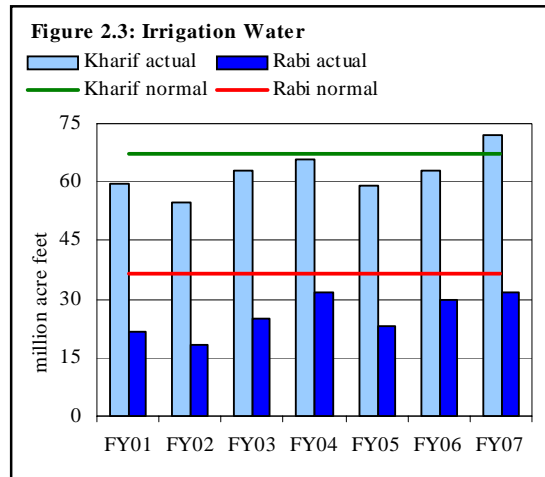
**Irrigation Water Availability**

The higher monsoon rains during Jul-Oct FY07 relative to the comparable period of FY06 has increased the surface and underground water availability (see **Figure 2.2**). This in turn is likely to improve the prospects for crops, livestock and fisheries sub-sectors of the agriculture.

The irrigation water availability during FY07 seasons anticipated an increase of 11.2 percent to reach 103.5 million acre feet (MAF), which is considered as the normal level. If available water resources are well managed, there will be no severe shortfall as seen in the corresponding period of FY06.



Irrigation water availability was 13.9 percent higher in *kharif* and expected to increase by 5.3 percent in *rabi* FY07 season over last year (see **Figure 2.3**). Specifically, water availability in both, the Punjab and Sindh are expected to increase by 25,000-cusecs and Sindh 5,000-cusecs respectively during *rabi* FY07 season compared to the last *rabi* season.<sup>2</sup>



Moreover, in order to increase efficiency, under an ongoing *National Programme for Improvement of Water Courses in Pakistan*, 12000 water courses have been targeted to be improved in Punjab (7000) and in Sindh (5000) during FY07. On completion of this project, it

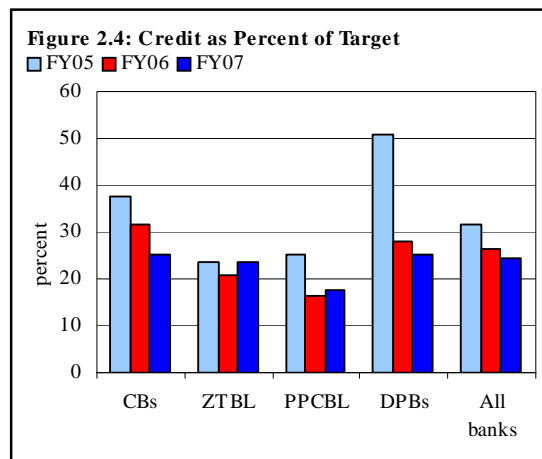
<sup>2</sup> Source: Indus River System Authority (IRSA).

will promote efficient use of water and improve irrigation efficiency at farm gate between 60 - 80 percent, resulting in large water savings.

**Credit Disbursement**

The credit disbursement target for FY07 was set at Rs 160.0 billion, compared to Rs 137.5 billion in FY06. This represents a strong 16.4 percent growth, nonetheless

lower than the 26.4 percent growth seen in the previous year. The current pace of credit disbursement during Jul-Nov 2006 (32.3 percent of the annual target), suggests that FY07 target would be achieved (see **Figure 2.4**).



Consistent with the target, agri-credit disbursement decelerated to 16.7 percent YoY during Jul-Nov FY07 compared with a robust 27.8 percent rise seen in the same period last year. While disbursement by the domestic private banks (DPBs) and specialized banks (ZTBL & PPCBL) remained strong, this deceleration is mainly from a slower rise by the big-5 commercial banks (CBs)<sup>3</sup> during this period. PPCBL witnessed an increase of 17.2 percent YoY in Jul-Nov FY07 against a decline of 27.4 percent YoY seen in the same period last year (see **Table 2.5**).

**Table 2.5: Credit Disbursement Growth (Jul-Nov)**  
percent

Banks	FY06	FY07
CBs <sup>1</sup>	39.3	5.2
ZTBL	11.5	30.7
PPCBL	-27.4	17.2
DPBs	52.6	41.7
All banks	27.8	16.7

<sup>1</sup>. ABL HBP, MCB, NBP and UBL

All commercial banks except ABL and MCB witnessed deceleration in credit disbursement to the agri-sector during Jul-Nov FY07 compared with the same period of last year. This deceleration is attributed to (1) increase in lending rates, and (2) liquidity constraints faced by the banks. As a result, the CBs' market share in agri-credit fell by 5.7 percentage points to 52.2 percent during Jul-Nov FY07 over the last year. Consequently, ZTBL and DPBs gained market share in

<sup>3</sup> NBP, HBL, UBL, MCB Bank and ABL.

agri-credit by 3.2 and 2.5 percentage points respectively during this period (see **Figure 2.5**). Agriculture credit disbursement is likely to accelerate in months ahead as fertilizer off-take would increase at subsidized prices.

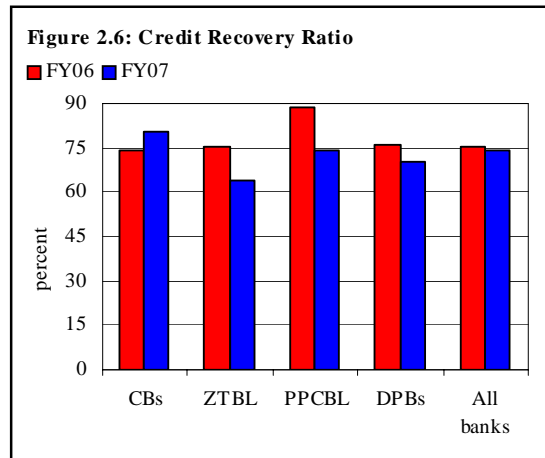
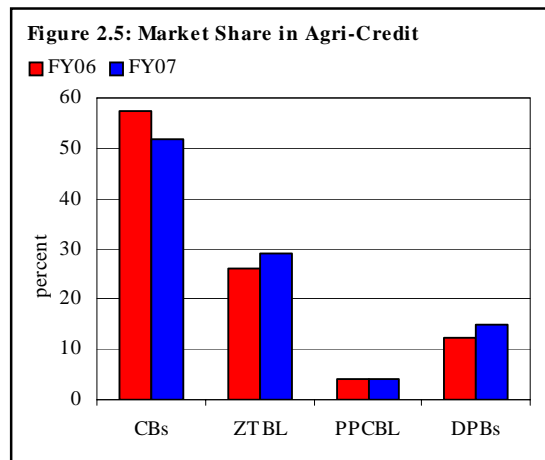
**Credit Recovery**

Despite losses caused by rains and flood during recent monsoon, the credit recovery as percentage of disbursement improved by 1.3 percentage points YoY during Jul-Nov FY07. However, this improvement is principally from a rise of 7.1 percentage points in the recovery ratio of CBs during this period. The other banking groups witnessed a relative deterioration in their respective recovery ratio. In particular, PPCBL witnessed a sharp decline of 15.1 percentage points during Jul-Nov FY07 (see **Figure 2.6**).

**Fertilizers Off-take**

To help boost the agricultural productivity and farm income, the government has announced a subsidy on 16 brands of Phosphate and Potash fertilizers during *rabi* FY07 season (see **Table 2.6**). This will entail an estimated cost of Rs 12.3 billion to budget. In addition, the government has launched a media campaign to guide farmers regarding the use of balanced mix of fertilizers to increase the yield of different crops.

However, farmers delayed the purchase of fertilizers for *rabi* FY07 season in anticipation of the subsidy announcement as well as due to continued rising prices of urea. As a result, fertilizers off-take fell by 21.2 percent YoY during Jul-Oct FY07 against 7.4 percent increase seen in the same period last year.



In particular, urea fertilizer off-take (the larger variety of fertilizer being used by the growers), fell by 23.4 percent YoY during Jul-Oct FY07 against 12.7 percent increase witnessed in the same period last year. Similarly, DAP off-take also witnessed a fall of 15.4 percent YoY in Jul-Oct FY07. However, a sharp rise is evident in DAP off-take during October 2006 following a decline in its prices (see **Figure 2.7**). Agri-scientists suggest that balanced use of fertilizers would help to increase the per unit yield. The subsidy given on other than urea fertilizers is also a part of the yield enhancing strategy.

**Table 2.6: Subsidy on Fertilizers**

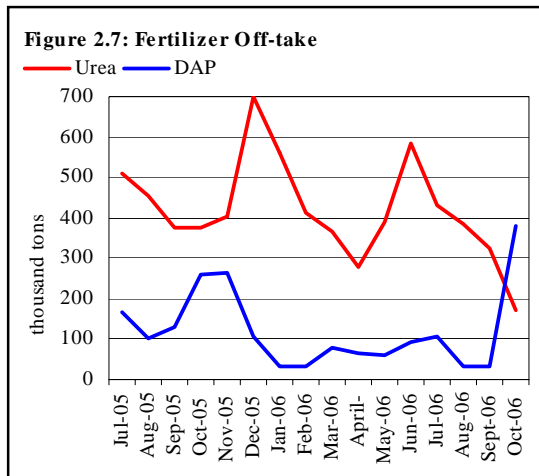
Brands of Fertilizers	Rs/50kg bag
DAP n18, po46	250
SSP (P) po18	98
SSP (G) po20	109
TSP po46	250
MAP*n11, po52	257
SOP ko50	250
MOP ko60	250
NP n20, po23	125
NP n23 po23	125
NPK (MOP) g n8, po23 ko 18	200
NPK (MOP) g no8, po23 ko 18 ko 20	181
NPK (MOP) grade n10 po28 ko10	194
NPK (MOP) grade n18 po9 ko18	124
NPK (MOP) grade n17 po17 ko17	163
NPK (SOP) grade n12 po15 ko20	182
NPK (SOP) grade n17, po17, ko17	177

\*: 45.5 kg bag  
Source: National Fertilizer Development Centre

The recently announced subsidies and media campaign is also focused to improve the use of right combination of the fertilizers.

The subsidy has been announced in the range of Rs 109 to Rs 257 per 50 kg bag effective from 1<sup>st</sup> November, 2006, it is expected that fertilizers off-take would sharply increase in Nov-Dec 2006.

Due to weak demand on the back of expected subsidy announcement, average urea prices rose by only 5.1 percent in October 2006 compared with 11.3 percent in the same period last year. The prices of DAP, which has been subsidized by Rs 250 per bag



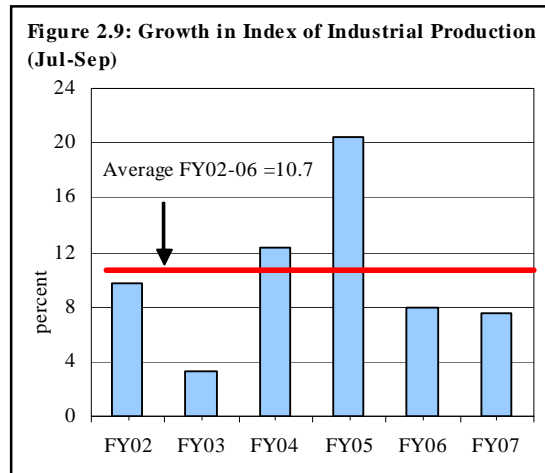
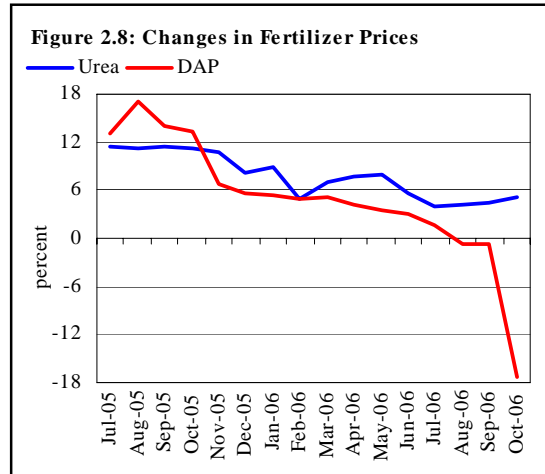
(effective for *rabi* season) decreased by 17.2 percent in October 2006 in contrast to 13.4 percent increase witnessed last year (see **Figure 2.8**).

**2.2 Industrial Production<sup>4</sup>**

The *Index of Industrial Production* (IIP<sup>5</sup>), witnessed an increase of 7.6 percent during Q1-FY07, a little lower than the 7.9 percent rise seen during Q1-FY06 (see **Figure 2.9**). The slowdown is a reflection of growth deceleration in the *electricity generation* and *mining & quarrying* sub-sectors of the IIP, as growth in large scale manufacturing appears to be picking up during Q1-FY07. The lower growth in *mining & quarrying* was largely attributed to weaker growth in the production of natural gas during Q1-FY07, reflecting, in part, the disturbances in Balochistan.

**Large Scale Manufacturing (LSM)**

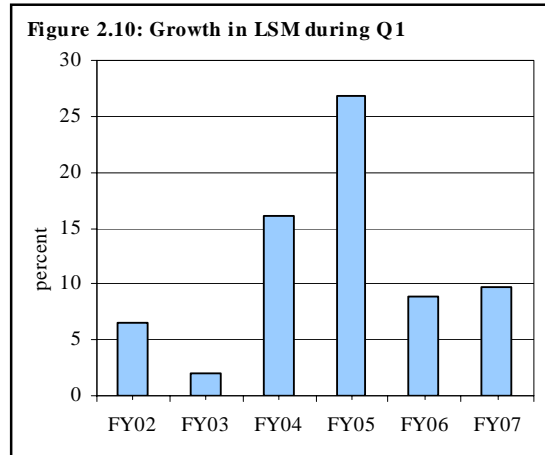
Growth in *large scale manufacturing* accelerated in Q1-FY07, rising to 9.7 percent as compared with the 8.8 percent growth seen in Q1-FY06 (see **Figure 2.10**). The primary drivers of this improvement were textiles, electronics, chemicals and metals industries.



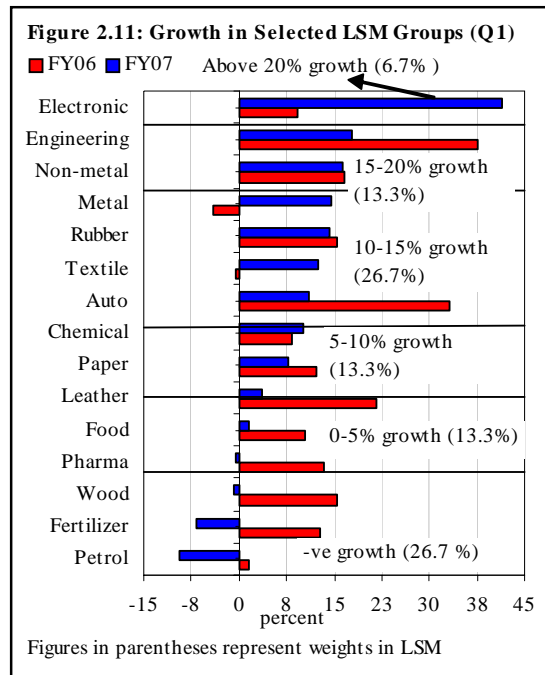
<sup>4</sup> This analysis is based on the provisional data on *large scale manufacturing* (LSM) supplied by the Federal Bureau of Statistics.  
<sup>5</sup> IIP is used as a proxy for industry to estimate the industrial production.



However, as shown in **Figure 2.11** the *LSM* growth acceleration is not broad based. Out of fifteen sub-sectors only five sub-groups (with 47.6 percent weight in total *LSM*) recorded acceleration, while four industries (having 18.2 percent weight) witnessed a decline in the production during Q1-FY07. The strongest contribution in *LSM* acceleration was from the *electronics* sub-sector in Q1-FY07; excluding this sector, *LSM* growth drops to only 7.4 percent from 8.7 percent in Q1-FY06 (see **Table 2.7**)



The *electronics* sub-sector recorded an extraordinary 41.6 percent YoY growth during Q1-FY07 as against 9.2 percent YoY growth in the same period of previous year. The continued strong demand for consumer electronics appears to reflect strong income growth, and better access to credit, while the impact of efforts by power utilities, KESC and WAPDA, to modernize and extend their distribution networks is reflected in the demand for electricity meters, transformers, etc.



Within consumer *electronics*, the highest 218.4 percent growth was seen in the production of air conditioners during the first three months of the current fiscal

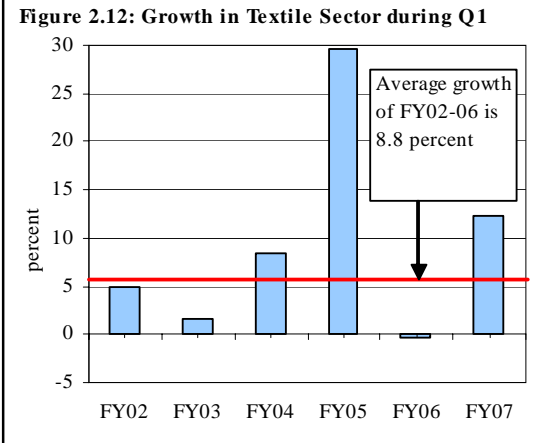
year as against a decline of 6.1 percent in Q1-FY06.<sup>6</sup> This extraordinary performance is mainly a result of aggressive marketing by local companies as well as the increasing popularity of split type air conditioners due to efficiency in energy consumption as well as relatively lower prices.

**Table 2.7: Summary of Growth Rates during Q1**

percent	FY05	FY06	FY07
<b>Overall</b>	<b>26.9</b>	<b>8.8</b>	<b>9.8</b>
Excl. textile	25.6	13.0	8.7
Excl. electronics	24.2	8.7	7.4
Excl. automobiles	25.5	6.2	9.6
Excl. textiles & electronics	21.5	13.4	5.1
Excl. textile, electronics & autos	18.5	9.9	3.7

Source: Based on data from Federal Bureau of Statistics

As with electronics, the growth in the textiles sub-group also rose to 12.4 percent during Q1-FY07 as against a decline of 0.4 percent in the same period last year. This growth is the second highest for any first quarter during the last six years (see **Figure 2.12**). The rise in production in the backdrop of declining exports in key textile categories adds to the concerns over the quality of data.<sup>7</sup> The growth recorded in textile production



statistics appears to be supported by the acceleration in the growth of the chemicals sub-sector to 10.1 percent during Q1-FY07 as compared with 8.2 percent growth during Q1-FY06. In particular, production grew strongly for textile-related chemicals such as *synthetic resins*, and *caustic soda*.

Another significant contributor to the LSM growth acceleration was the *metals* sub-sector. This sub-group grew by 14.5 percent during Q1-FY07 against the decline in the production by 4.1 percent during the same period last year. The improvement can be attributed to the streamlining of production by Pakistan Steel after completion of repairs of its coke-oven batteries in the last quarter of FY06.

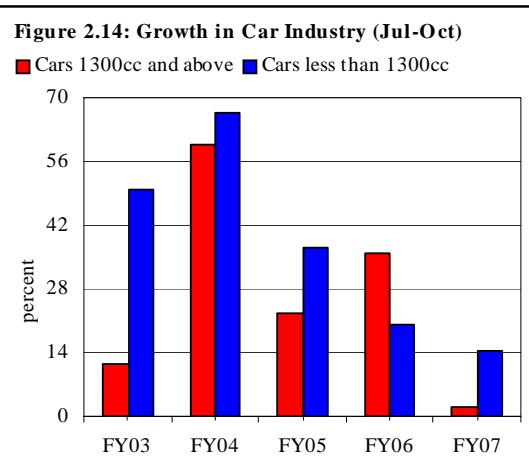
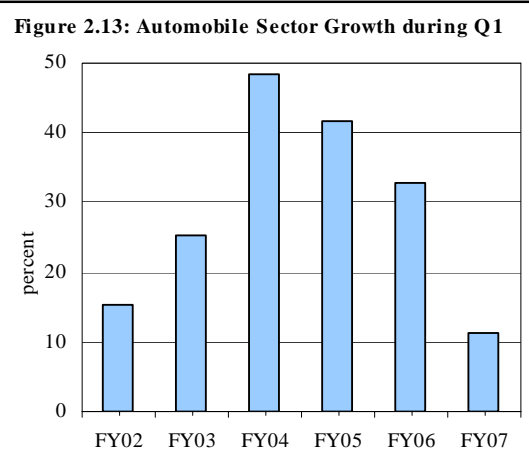
<sup>6</sup> In absolute terms, the production of air conditioners reached to 102,390 units during Q1-FY07 from the aggregate production of 73,863 units during the first quarter of last six years (FY01-FY06).

<sup>7</sup> According to SBP trade data, the textile sector recorded 11.7 percent growth in Q1-FY07, while as per FBS data the exports of textiles sector fell by 9.3 percent during this same period.

Consequently, imports of *iron & steel*<sup>8</sup> products declined by 4.4 percent during Q1-FY07 as against a rise of 71.6 percent in Q1-FY06.

In contrast to the acceleration in the above mentioned sub-sector, production in the *automobiles* sub-group saw a deceleration during the first three months of FY07. Specifically, the *automobiles* sector registered a growth of only 11.1 percent during Q1-FY07, which is not only lower than the strong growth of 33.1 percent in the same period of the preceding year but also the lowest during the last six years (see **Figure 2.13**).<sup>9</sup> The capacity constraints, rise in interest rates, and import of used vehicles are the main reasons to slower growth in demand for local automobiles. In particular, the production of *cars & jeeps* slowed to 14.9 percent<sup>10</sup> in Q1-FY07 as against a high growth of 25.7 percent during the same period of the previous year (see **Figure 2.14**).

In contrast, the production of *motor cycles* and *tractors* witnessed a fall of 18.0 percent in the first four months of FY07 compared with 37.5 percent rise during the same



<sup>8</sup> The import of *iron & steel* consist of *iron & steel* as well as *iron & steel scraps*.

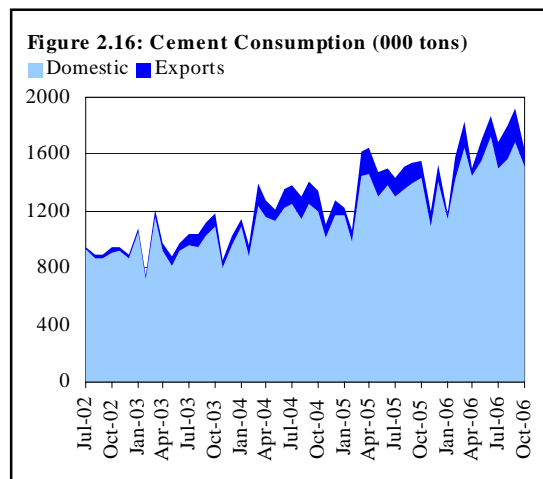
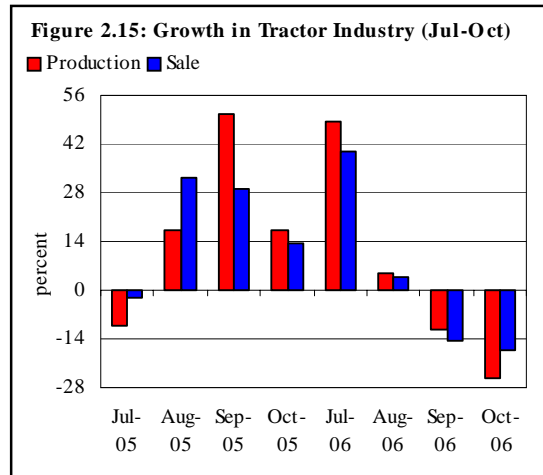
<sup>9</sup> On the basis of information provided by PAMA for Jul-Oct, the growth rate of automobiles industry slowed further to 6.9 percent as compared with a high growth of 26.9 percent in the same period last year.

<sup>10</sup> The growth of cars & jeeps manufacturing further dipped to 9.1 percent during Jul-Oct FY07 significantly lower from 26.5 percent growth of Q1-FY06.

period of the preceding year. Under-reporting due to the rising market share of non-reporting producers (that are not members of the Pakistan Automobile Manufacturing Association) and a fall in farm incomes were the main factors for decline in the production of motor cycles.

Similarly, the production of *tractors* also fell to 0.3 percent in Jul-Oct FY07 from 18.6 percent growth during Q1-FY06. The monthly production data shows that highest decline was observed in the month of October 2006 (see **Figure 2.15**). This dip in production is attributable to the number of factors, including a slowdown in tractor financing, capacity constraints, shut down of plant by one of assemblers for annual maintenance (for ten days) during October 2006, import of Chinese tractors in the market after the government’s budgetary decision of allowing import of tractors and work in progress to double the capacity of one manufacturer (which temporarily affected production capacity).

Another industry that recorded a slowdown in production growth during Q1-FY07 is *non-metal* industry. Within the non-metal sub-sector, the lower growth was seen in *cement* industry with 16.4 percent growth during Q1-FY07 as compared with 17.3 percent growth during the same period of previous year. The deceleration in the growth of cement



production is also mirrored in the domestic cement sales<sup>11</sup> during this period (see **Figure 2.16**). The local cement dispatches rose by 4.4 percent in the first four months of FY07 as against a strong growth of 13.1 percent in the same period of last year. In sharp contrast, export demand for cement registered a robust increase of 41.5 percent during Jul-Oct-FY07 as against a fall of 5.8 percent in export during Jul-Oct-FY06. The decisions of the government regarding restoration of duty drawback on cement exports,<sup>12</sup> exemptions of federal excise duty and sales tax on exported cement as well as relatively moderate domestic demand, and more importantly lower domestic prices in Q1-FY07 relative to Q1-FY06 are key reasons for the rise in cement exports during the first four months of FY07.

The *paper & board* industry witnessed a slowdown in production growth during Q1-FY07 principally due to capacity constraints. Fresh investment in this industry is likely to accelerate its growth and lower imports of paper & board.

As with paper and board, the production of *fertilizer* also declined in Jul-Oct FY07, dropping by 1.7 percent as against a rise of 3.7 percent growth during the same period of the preceding year. This is partly attributed to supply problems due to capacity constraints (exacerbated by a shutdown by one of the producers for capacity expansion), as well as a slowdown in demand due to the impact of untimely rains and a temporary fall in demand for phosphatic fertilizer in anticipation of a subsidy announcement (the production of non-urea fertilizers dipped 5.1 percent YoY during the first four months of the current fiscal year in contrast with 14.4 percent growth recorded during Jul-Oct-FY06).

The high capacity utilization and continued strength of demand has attracted investment in the fertilizer industry. As a result, one major project is expected to begin operations in FY08 and another major project is likely to come online later. In the meantime, smaller expansions are also expected to be implemented in the current year, which implies that the production growth will slow temporarily in FY07 (necessitating a rise in imports) before resurging in FY08 onwards.

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<sup>11</sup> The total (domestic and external) sales recorded growth of 18.7 percent, 15.6 percent and 48.0 percent respectively during Q1-FY07 as compared with 9.4 percent, 10.7 percent and a decline of 1.0 percent respectively during the same period last year.

<sup>12</sup> The Central Board of Revenue (CBR) has allowed duty drawback at the rate of Rs 25.08 per ton on export of cement through a customs notification by amending the SRO 840 of 2006. The facility is effective from September 27, 2006.

Similarly, faltering demand for high distillates (e.g., motor spirits, kerosene), as well as storage and export bottlenecks led to a fall in capacity utilization in domestic refineries. This is reflected in the 4.9 percent decline in crude petroleum imports during FY07, and a simultaneous sharp 71.6 percent rise in imports of some refined products (principally furnace oil, to meet surging demand from domestic power utility for

electricity generation). As a result, the production of *petroleum products* declined by 10.2 percent during Jul-Oct-FY07 as compared with a negligible rise of 0.7 percent during the same period of the preceding year, and petroleum refineries capacity utilization fell to 74.3 percent, which is 12.3 percentage points less than the capacity utilization during the same period of last year. The production performance of different POL items is summarized in **Table 2.8**.

**Table 2.8: Production of POL Products (Jul-Oct)**

000 metric tons	FY05	FY06	FY07
Jet fuel	356	421	402
Kerosene	55	65	66
Motor spirits	463	430	404
High speed diesel	1,256	1,187	1,002
Light speed diesel (n.o.s.)	77	47	49
Furnace oil	1,049	1,149	988
Lubricant oil	89	69	70
Jute batching oil	2	1	1
Solvent naphtha	238	262	263
Petroleum products (n.o.s.)	233	212	205
<i>Total POL</i>	<i>3,817</i>	<i>3,842</i>	<i>3,451</i>

#### **Analysis of Industries by End-Use (UBQI)<sup>13</sup>**

During Q1-FY07, deceleration was seen in the *User Based Quantum Index* (UBQI), which reflects the trend seen in the *electricity generation* and *mining & quarrying* sub-sectors of industry. While the two sub-indices (*basic goods* and *capital goods*) registered deceleration in output, the other two sub-components *consumer goods* and *intermediate goods* recorded acceleration in growth during Q1-FY07 (see **Figure 2.17**).

In Q1-FY07 *consumer goods* industries accelerated to 13.1 percent growth as compared with 9.5 percent rise seen in Q1-FY06, this rise is contributed by both durables as well as non-durables consumer goods. Within *consumer goods*, the growth in the production of *durables* accelerated to 26.3 percent YoY in the first three months of FY07, compared to the 21.1 percent YoY growth in the same period of the preceding year. The rise in the production of air conditioners, sewing machines and rubber products was the main contributory factors for the acceleration in this sub-group. Similarly, the production of *consumer non-*

<sup>13</sup> The UBQI covers about 62 percent of the industrial sector, with basic goods, consumer goods (durable & non-durables) and the capital goods.

*durables* (having 86.7 percent shares in consumer goods) also rose from 4.8 percent growth in Q1-FY06 to 7.0 percent in Q1-FY07. The major drivers for the high growth in the production of *consumer non-durables* included a large recovery in the production of *cotton cloth*, increase in the output of *electronics products (electric tubes)* and, some products of *pharmaceutical industries*.

Similarly, *intermediate goods* also showed the acceleration in production during Q1-FY07 with 5.9 percent growth as against a growth of 5.3 percent in the same period of last fiscal year. However, the fall in the output of *POL products and fertilizers* has partially offset the positive contribution of *cotton yarn and pig iron* during this period.

Contrary to *consumer and intermediate goods* indices, the *basic goods* industry (having over 25 percent weights in *UBQI*) recorded a lower growth of 2.4 percent in Q1-FY07 as compared with 7.8 percent growth seen in the Q1-FY06. The acceleration in the output of *crude oil, coal* and recovery in construction related minerals (gypsum, rock salt), was offset by relatively weaker growth of *electricity generation* and by fall in the production of *coke, marbles and acids*.

Similarly, the *capital goods* output registered a weaker growth of 9.6 percent during Q1-FY07 mainly as compared with substantially high increase of 30.1 percent recorded in Q1-FY06. It is interesting to note that the capital goods recorded single digit growth in Q1-FY07 for the first time since FY04.

The analysis of *UBQI* suggests that domestic consumption demand remained strong. While aggregate growth in *basic and capital goods* industries is relatively weak, it is important to note that a number of these industries are facing capacity constraints. Increased investment in such industries could restore the growth momentum here as well.

